UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA

CASE NO: 14-cv-22205-DIMITROULEAS

CITY OF MIAMI, a Florida municipal corporation,

Plaintiff,

v.

DEMAND FOR JURY TRIAL

JPMORGAN CHASE & CO., and
JPMORGAN CHASE BANK, N.A.,

Defendants.
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THIRD AMENDED COMPLAINT
FOR VIOLATIONS OF THE FEDERAL FAIR HOUSING ACT

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I. NATURE OF THE ACTION

1. Plaintiff City of Miami ("Miami" or the "City") brings this action against JPMorgan (hereafter "JPMorgan" or the "Bank") for the economic impact of its longstanding, unbroken policy and practice of both intentionally steering minority borrowers in Miami into "discriminatory" mortgage loans (defined herein as loans that have higher costs and risk features than more favorable and less expensive loans issued to similarly situated white borrowers) and engaging in facially neutral business policies and practices that created an "artificial, arbitrary, and unnecessary" barrier to fair housing opportunities for minority home purchasers and owners. Additionally, JPMorgan maintained a policy of refusing to extend credit to minority borrowers who desired to refinance the more expensive loans they previously received when such credit was extended to white borrowers.

2. The adverse impact that the Bank's mortgage lending policies and practices would cause in terms of widespread economic and non-economic damages throughout the City were entirely foreseeable through a variety of analytical tools and published reports available to the Bank.

A. JPMorgan Has Engaged in a Continuing Pattern of Discriminatory Mortgage Lending Practices in Miami Resulting in Foreclosures.

3. This suit is brought pursuant to the Fair Housing Act of 1968 ("FHA"), as amended, 42 U.S.C. §§ 3601, *et seq*., by the City of Miami to seek redress for injuries caused by JPMorgan's[1] pattern or practice of illegal and discriminatory mortgage lending. Specifically, Miami seeks injunctive relief and damages for the injuries caused by (1) the origination of discriminatory mortgage loans in minority neighborhoods and to minority borrowers that are the result of JPMorgan's unlawful and discriminatory lending practices, and (2) the Bank's subsequent refusal to extend credit to minority borrowers seeking to refinance previously issued discriminatory loans.

[1] Defendants collectively are referred to as "JPMorgan," including: JPMorgan Chase & Co., JPMorgan Chase Bank, N.A. JPMorgan Chase & Co. is the result of the combination of several large U.S. banking companies over the last decade including JPMorgan Manhattan Bank, J.P. Morgan & Co., Bank One, Bear Stearns, and Washington Mutual. Accordingly, Plaintiff alleges that Defendants are also liable for residential home loans and lending operations acquired from, and/or sold by or through, Bear Stearns Residential Mortgage, Chase Manhattan Mortgage Corporation, Encore Credit Corporation, Performance Credit Corporation, JPE Home Finance LLC, and Bravo Credit Corp.

The unlawful conduct alleged herein consists of both intentional discrimination and disparate impact discrimination. JPMorgan's policies and practices identified herein were not justified by business necessity or legitimate business interests. There were less costly and thus less discriminatory alternatives available to JPMorgan that would have achieved the same business goals as were achieved by these policies and practices.

4. The State of Florida in general, and the City of Miami in particular, have been devastated by the foreclosure crisis. As recently as the year ending 2014, Florida had the country's highest foreclosure rate, and Miami had the second highest foreclosure rate among metropolitan statistical areas with a population of at least 200,000 residents.[2] Moreover, Florida is by far the leading state in the country with regard to owner-vacated or "Zombie" foreclosures.[3] Since 2008, banks have foreclosed on approximately 1.8 million homes in Florida, and JPMorgan's discriminatory conduct is responsible for a significant number of these foreclosures.

5. The foreclosure crisis in Florida resulted in such drastic consequences that the Florida Supreme Court established a Task Force to recommend "policies, procedures, strategies, and methods for easing the backlog of pending residential mortgage foreclosure cases while protecting the rights of parties."[4]

6. While JPMorgan has adapted to changing market conditions necessitated by enhanced public scrutiny of its mortgage lending practices, one issue has remained constant since at least 2004 – JPMorgan has systematically engaged in a continuous pattern and practice of issuing discriminatory mortgage loans to minority borrowers in Miami when more favorable and less expensive loans were being offered to similarly situated non-minority borrowers. Upon information and belief, this unlawful pattern and practice continues through the present and has

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[2] RealtyTrac, *Year-End 2014 U.S. Foreclosure Market Report* (Jan. 15, 2015), *available at* http://www.realtytrac.com/news/foreclosure-trends/1-1-million-u-s-properties-with-foreclosure-filings-in-2014-down-18-percent-from-2013-to-lowest-level-since-2006/.

[3] RealtyTrac, *Q1 2013 Foreclosure Inventory Update*, at 5, *available at* http://www.realtytrac.com/images/reportimages/RealtyTrac_Foreclosure_Inventory_Analysis_Q1_2013.pdf.

[4] Florida Supreme Court Task Force on Residential Mortgage Foreclosure Cases, *Final Report and Recommendations on Residential Mortgage Foreclosure Cases* (Aug. 17, 2009), *available at* http://www.floridasupremecourt.org/pub_info/documents/Filed_08-17-2009_Foreclosure_Final_Report.pdf.

not terminated. Therefore, the operative statute of limitations governing actions brought pursuant to the FHA has not commenced to run.

7. The pattern and practice of lending discrimination engaged in by JPMorgan includes traditional redlining[5] and reverse redlining,[6] both of which have been deemed to violate the FHA by federal courts throughout the country. JPMorgan engaged in redlining, and continues to engage in said conduct, by refusing to extend mortgage credit to minority borrowers in Miami on equal terms as to non-minority borrowers. JPMorgan engaged in reverse redlining, and, upon information and belief, continues to engage in said conduct, by extending mortgage credit on discriminatory terms to minority borrowers in minority neighborhoods in Miami on the basis of the race or ethnicity of its residents. As former Federal Reserve Chairman Ben Bernanke acknowledged, these twin evils of mortgage discrimination "continue to have particular significance to mortgage markets."[7]

8. Major banks such as JPMorgan have a long history of engaging in redlining throughout Miami. That practice began to change in the late 1990s, when JPMorgan adapted to changing market conditions and began to flood historically underserved minority communities with mortgage loans that consisted of a variety of high cost and abusive mortgage loan products as compared to the mortgage loans issued to similarly-situated white borrowers (reverse redlining).

9. JPMorgan's discriminatory lending practices knowingly place vulnerable, underserved borrowers in loans they cannot afford. This practice maximizes JPMorgan's profit without regard to the borrower's best interest, the borrower's ability to repay, or the financial health of underserved minority neighborhoods, resulting in an excessively high number of more expensive loans in Miami. Moreover, JPMorgan has averted any significant risk to itself by selling the vast majority of mortgage loans it originates or purchases on the secondary market.

10. JPMorgan's discriminatory misconduct has also caused an excessive and disproportionately high number of foreclosures in the minority neighborhoods of Miami. These

[5] Redlining is the practice of denying credit to particular neighborhoods based on race.

[6] Reverse redlining is the practice of flooding a minority community with exploitative loan products.

[7] Remarks by Federal Reserve Chairman Ben Bernanke at the Operation HOPE Global Financial Dignity Summit, Atlanta, Georgia, *Challenges in Housing and Mortgage Markets*, at 10 (Nov. 15, 2012), *available at* www.federalreserve.gov/newsevents/speech/bernanke 20121115a.htm.

foreclosures often occur when a minority borrower who previously received a discriminatory loan sought to refinance the loan, only to discover that JPMorgan refused to extend credit at all, or on equal terms as refinancing similar loans issued to white borrowers. The inevitable result of the combination of issuing unnecessarily expensive or inappropriate loans, and then refusing to refinance the loans, was foreclosure.

11. JPMorgan's pattern and practice of *reverse redlining* has caused an excessive and disproportionately high number of foreclosures on the loans it has made in the minority neighborhoods of Miami. Foreclosures on loans originated by JPMorgan are concentrated in these neighborhoods. *A loan in a predominantly minority neighborhood is 7.142 times more likely to result in foreclosure than is a loan in a neighborhood with a majority of white residents*.

12. JPMorgan would have had comparable foreclosure rates in minority and white communities if it was properly and uniformly applying responsible underwriting practices in both communities. JPMorgan possesses sophisticated underwriting technology, analytic tools, data, and access to reports that allow it to foreseeably predict with precision the likelihood that it had issued an improperly more expensive loan, as well as the likelihood the loan would result in delinquency, default, or foreclosure.[8] And if that was not sufficient, the Bank had branch offices located in Miami and knew, or certainly should have known, of the adverse consequences of its lending misconduct to minority borrowers and the City regardless of whether the Bank subsequently sold the loan or servicing rights to a third party. Consequently, the Bank's issuance of improperly more expensive loans to minority borrowers was not the result of random events.

13. While JPMorgan purports to be a good corporate and community citizen, the reality is exactly the opposite. The Bank was putting its financial interests ahead of its customers and the City of Miami in order to maximize profits.

14. The Bank's discriminatory lending practices are evidenced by information from confidential witness statements provided by former employees of JPMorgan (discussed further herein). For example:

a) "Everybody knew that there was a lot of fraud. . . . Everybody was going over their head . . . I think the fault

[8] The scope of JPMorgan's risk analysis policies and practices is set forth in detail throughout the Bank's 2014 Annual Report, *available at* http://files.shareholder.com/downloads/ONE/1085426515x0x820066/f831cad9-f0d8-4efc-9b68-f18ea184a1e8/JPMC-2014-AnnualReport.pdf

was originally with the banks because guidelines were so lenient."

b) "We are paid on commission only. We earn money only when we close the loan. If they (the borrowers) come in, fit in the loan program, want the program, and are of sound mind, who am I to stand up and blow the whistle?"

c) "[Immigrant customers] take your advice because you are from the Bank. You're like a doctor or lawyer. These are blue-collar workers. They are taking your advice. They'll listen to what you say. It was easy to coerce them . . . They were talked into how good the American Dream is, we told them, 'You can do this; I know you can do this . . . This is your opportunity to give yourself a slice of the American Dream.'"

d) Hispanics "absolutely" used the "no doc" loans at higher percentages than whites. "That was perfect for them."

e) "The interest only loans -- that got people in there to buy houses they could not afford."

f) "I absolutely heard managers [telling loan officers to increase the borrower's income level, assets and/or education level to qualify the borrower] . . . Not just once. A bunch of times . . . They'd say, 'Tweak that file. Give them a college education.'"

g) "The pressure for employees to produce created an environment where people were buying homes they shouldn't be buying . . . There was so much pressure from the Bank to do big numbers. Even for management. Their jobs were threatened if they didn't have the numbers on the board . . . It's the guy who brings in the $20 million (who's praised), but nine times out of 10, those people are committing fraud."

15. The reports of these witnesses are confirmed when the Miami data on JPMorgan loans is examined. Such an examination reveals a widespread practice of discrimination. For example, a regression analysis that *controls for credit history* and other factors demonstrates that an African-American JPMorgan borrower was 6.351 times more likely to receive a discriminatory loan as a white borrower and a Latino borrower 1.982 times more likely. The regression analysis confirms that African-Americans with FICO scores over 660 are 5.500 times more likely to receive a discriminatory JPMorgan loan as a white borrower, and a Latino borrower 2.209 times more likely.

16. The Office of the Comptroller of the Currency and the Board of Governors of the Federal Reserve System brought an action alleging that certain large banks, including JPMorgan, engaged in mortgage lending related misconduct that induced a national foreclosure crisis. In connection with that action, JPMorgan entered into a settlement agreement with the government pursuant to which JPMorgan will: (a) make a cash payment of $753 million into a settlement fund for distribution to qualified borrowers; and (b) provide an additional $1.2 billion to foreclosure prevention actions.

17. In November 2013, JPMorgan entered into a $13 billion settlement with the U.S. Department of Justice and various federal and state partners relating to the packaging, marketing, sale and issuance of residential mortgage backed securities by JPMorgan, Washington Mutual, and Bear Stearns. JPMorgan acknowledged that it made serious misrepresentations to the public in connection with these securities. Under the terms of the settlement, $9 billion will be paid to settle federal and state claims, and $4 billion will be paid to assist consumers harmed by the unlawful conduct.

18. In 2012, JPMorgan Chase and four other large mortgage servicers agreed to a global settlement with the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, the Consumer Financial Protection Bureau, and the state attorneys general. The settlement relates to unethical mortgage origination and servicing activities similar to the activities alleged herein. Under the settlement, JPMorgan will make cash payments of approximately $1.1 billion to 50 states (with a set aside to certain borrowers); offer approximately $500 million of refinancing to certain borrowers; and provide approximately $3.7 billion of additional payments for certain borrowers.

19. According to former Federal Reserve Chairman Bernanke, "foreclosures can inflict economic damage beyond the personal suffering and dislocation that accompany them. Foreclosed properties that sit vacant for months (or years) often deteriorate from neglect, adversely affecting not only the value of the individual property but the values of nearby homes as well. Concentrations of foreclosures have been shown to do serious damage to neighborhoods and communities, reducing tax bases and leading to increased vandalism and crime. Thus, the overall

effect of the foreclosure wave, especially when concentrated in lower-income and minority areas, is broader than its effects on individual homeowners."[9]

20. The discriminatory lending practices at issue herein have resulted in what many leading commentators describe as the "greatest loss of wealth for people of color in modern US history." It is well-established that poverty and unemployment rates for minorities exceed those of whites, and therefore, home equity represents a disproportionately high percentage of the overall wealth for minorities.[10] As Chairman Bernanke explained, as a result of the housing crisis, "most or all of the hard-won gains in homeownership made by low-income and minority communities in the past 15 years or so have been reversed."[11] The resulting impact of these practices represents "nothing short of the preeminent civil rights issue of our time, erasing, as it has, a generation of hard fought wealth accumulation among African-Americans."[12]

II. PARTIES

21. Plaintiff City of Miami is a Florida municipal corporation. The City has maintained an active and longstanding interest in the quality of life and the professional opportunities that attend an integrated community. One way that the City has furthered these interests is through its Department of Community and Economic Development, which is charged with responsibility for operating the City's fair housing program, reducing illegal housing discrimination, monitoring and investigating fair housing complaints, supporting fair housing litigation, and conducting research and studies to identify and address fair housing impediments as a means of improving the overall quality of life in the city. The City is authorized by the City Commission to institute suit to recover damages suffered by the City as described herein.

22. Defendant JPMorgan Chase & Co. ("JPMorgan & Co."), headquartered in New York, New York, operates under two brand names: JPMorgan and J.P.Morgan. The U.S. consumer and commercial banking businesses operate under the JPMorgan brand, and include its home

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[9] Bernanke, *supra* n.7.

[10] Robert Schwemm & Jeffrey Taren, *Discretionary Pricing, Mortgage Discrimination, and the Fair Housing Act*, 45 Harv. C.R.-C.L. L. Rev. 375, 382 (2010).

[11] Bernanke, *supra* n.7.

[12] Charles Nier III & Maureen St. Cyr, *A Racial Financial Crisis: Rethinking the Theory of Reverse Redlining to Combat Predatory Lending Under the Fair Housing Act*, 83 Temple L. Rev. 941, 942 (2011).

finance and home equity loan business. JPMorgan & Co., in its current structure, is the result of the combination of several large U.S. banking companies over the last decade including JPMorgan Manhattan Bank, J.P. Morgan & Co., Bank One, Bear Stearns, and Washington Mutual. Upon information and belief, Plaintiff alleges that JPMorgan & Co. owns and/or operates JPMorgan Chase Bank, N.A. and JPMorgan Manhattan Bank USA, N.A. JPMorgan & Co. operates a Consumer & Community Banking segment, which includes a mortgage banking business (i.e., mortgage production, servicing, and real estate portfolios).

23. According to JPMorgan's 2012 10-K, "Mortgage Banking includes mortgage origination and servicing activities, as well as portfolios comprised of residential mortgages and home equity loans, including the purchased credit impaired ("PCI") portfolio acquired in the Washington Mutual transaction."

24. Defendant JPMorgan Chase Bank, N.A. ("JPMorgan Bank") is organized as a national banking association under the laws of the United States. Upon information and belief, its corporate headquarters are located in New York, New York. It maintains multiple offices in the State of Florida and specifically in the City of Miami, for the purposes of soliciting applications for and making residential mortgage loans and engaging in other business activities. JPMorgan Bank also acquired JPMorgan Manhattan Bank USA, N.A. ("JPMorgan Manhattan").

25. The Defendants in this action are, or were at all relevant times, subject to Federal laws governing fair lending, including the FHA and the regulations promulgated under each of those laws. The FHA prohibits financial institutions from discriminating on the basis of, *inter alia*, race, color, or national origin in their residential real estate-related lending transactions.

26. The Defendants in this action are or were businesses that engage in residential real estate-related transactions in the City of Miami within the meaning of the FHA, 42 U.S.C. § 3605.

27. Based on information reported pursuant to the Home Mortgage Disclosure Act, in addition to loans that JPMorgan originated directly, Defendants are responsible for residential home loans acquired from, and/or sold by or through, JPE Home Finance LLC, Encore Credit Corp., Bear Stearns Residential Mortgage, Performance Credit Corp., and Bravo Credit Corp.

28. Upon information and belief, Plaintiff alleges that each of the Defendants was and is an agent of the other Defendants. Each Defendant, in acting or omitting to act as alleged in this Complaint, was acting in the course and scope of its actual or apparent authority pursuant to such agencies, and/or the alleged acts or omissions of each Defendant as agent were subsequently

ratified and adopted by each agent as principal. Each Defendant, in acting or omitting to act as alleged in this Complaint, was acting through its agents, and is liable on the basis of the acts and omissions of its agents.

III. JURISDICTION AND VENUE

29. This Court has jurisdiction over this matter pursuant to 42 U.S.C. § 3613 and 28 U.S.C. §§ 1331, 1343, because the claims alleged herein arise under the laws of the United States.

30. Venue is proper in this district under 28 U.S.C. § 1391(b) because JPMorgan conducts business in this district and a substantial part of the events and omissions giving rise to the claims occurred in this district.

IV. JPMORGAN ENGAGED IN DISCRIMINATORY LENDING PRACTICES

A. Facially neutral business policies and practices that created an "artificial, arbitrary, and unnecessary" barrier to fair housing opportunities for minority home purchasers and owners.

31. JPMorgan engaged in numerous facially neutral lending practices resulting in the disparate impact statistical analysis during the time periods at issue herein. These practices are united because they represent manifestations of the same continuous and unbroken practice of engaging in facially neutral business policies and practices that created an "artificial, arbitrary, and unnecessary" barrier to fair housing opportunities for minority home purchasers and owners. A partial list of these practices include, but is not limited to, the following:

a. knowing about lending practices that either risked or resulted in failing to adequately monitor the Bank's practices regarding mortgage loans, including but not limited to originations, marketing, sales, and risk management;

b. failing to underwrite loans based on traditional underwriting criteria such as debt-to-income ratio, loan-to-value ratio, FICO score, and work history;

c. placing borrowers in more expensive, riskier loans they qualified for;

d. failing to prudently underwrite hybrid adjustable-rate mortgages ("ARMs"), such as 2/28s and 3/27s;[13]

e. failing to prudently underwrite refinance loans, where borrowers substitute unaffordable mortgage loans for existing mortgages that they are well-suited for and that allow them to build equity;

f. allowing mortgage brokers to charge "yield spread premiums" for qualifying a borrower for an interest rate that is higher than the rate the borrower qualifies for and can actually afford;

g. marketing certain more expensive or riskier loan products to residents in predominantly minority neighborhoods;

h. requiring substantial prepayment penalties that prevent borrowers whose credit has improved from refinancing their discriminatory loan to a prime loan;

i. charging excessive points and fees that are not associated with any increased benefits for the borrower;

j. creating a compensation scheme incentivizing employees to issue discriminatory loans; and

k. failing to monitor and ensure compliance with federal fair lending laws.

B. JPMorgan Intentionally Discriminated Against Minority Borrowers in Violation of the Fair Housing Act, as Demonstrated by Former Bank Employees.

32. Confidential Witnesses ("CWs") are former JPMorgan employees responsible for making and/or underwriting loans on behalf of JPMorgan in the greater Miami region. CWs describe how JPMorgan has targeted minorities and residents of minority neighborhoods in and around Miami for discriminatory lending practices.

33. CW1 worked in Miami for JPMorgan as a mortgage representative from 2004 to 2008 and as a loan officer and personal banker from 2009 to 2010. As a mortgage rep, her job was to developed business relationships with mortgage brokers in Miami so they would bring loan applications to the Bank.

[13] In a 2/28 ARM, the "2" represents the number of years the mortgage will be fixed over the term of the loan, while the "28" represents the number of years the interest rate paid on the mortgage will be variable. Similarly, in a 3/27 ARM, the interest rate is fixed for three years and variable for the remaining 27-year amortization.

34. CW2 was a mortgage loan officer for JPMorgan at a Miami area branch from 1995 to 2008.

35. CW3 was a branch manager of a Miami area branch of JPMorgan Chase from 2007 to 2008.

36. CW4 was a loan originator at JPMorgan from 1996 to 2008. During the height of the real estate boom, she worked at a Fort Lauderdale branch, but most of her customers and loans originated from the Miami-Dade area. About 45 to 50 percent of her customers were Hispanic.

37. The CWs confirm that JPMorgan has engaged in discriminatory and otherwise discriminatory lending practices directly and/or through acquired lenders.

1. JPMorgan targets minorities for discriminatory loan terms (and pays its employees more for doing so).

38. According to CW2, from and after 2004, JPMorgan expanded its efforts to reach out to minorities in Miami. The Bank printed marketing materials in Spanish and English to appeal to Hispanics in Miami.

39. CW2 said that JPMorgan loan officers worked with minorities, such as Hispanics, who qualified for loans by showing the pooled cash flow of several family members. Typically, one member of the family would obtain the loan, while several members would sign the deed, she said. This enabled hundreds, if not thousands, of members of the Hispanic community in the City of Miami to qualify to buy homes they would not otherwise be able to afford. She explained that these loans had a high rate of default and eventually led to a rash of foreclosures.

40. CW3's bank branch was in a relatively wealthy white community, but the majority of the customers were minorities (including Hispanics and Haitians). CW3 said the undereducated and financially naive immigrant customer base made it easy to convince them to take out loans. "You talk them into it," CW3 said. "You convince them. They take your advice because you are from the bank. You're like a doctor or lawyer. These are blue-collar workers. They are taking your advice. They'll listen to what you say. It was easy to coerce them. All they could see was money."

41. CW3 explained that employees were trained to sell customers on the American Dream, convincing them that borrowing large sums to buy a home, invest in a second home, or simply take cash out to pay for their lifestyle was the American way. Bank employees knew recent immigrant customers who were desperate to buy a house were an easy target. "They believe in the American Dream, so they'll go any way you lead them," CW3 said. "They were talked into how

good the American Dream is, we told them, 'You can do this, I know you can do this. Just think, you can have money to buy investment property too.'"

42. CW3 also observed that the Bank's managers taught employees to tell customers, "This is your opportunity to give yourself a slice of the American Dream." Employees were also told by managers, "If you can talk [customers] into purchasing a home, the branch will be successful, the bank will be successful." Employees were further told by managers: "These people (customers) don't know what they want, they don't know what they need. It's your job to inspire them."

43. Upon information and belief, the practices and problems described by these confidential witnesses have continued into the present.

2. JPMorgan has underwritten short-term teaser rate loans, stated-income loans, interest only loans, and HELOCs that borrowers could not afford.

44. CW1 believes that the most common loan sold during the 2004 to 2008 period at JPMorgan was the 100 percent financed "80/20" loan, which was actually two loans – one for 80 percent of the home's value and the second for 20 percent. CW1 explained that the customer base for the subprime market and 80/20 loans in Miami was predominantly Hispanic borrowers. Many of these loans were also teaser rate "2/28" loans, which offered low rates for two years that adjusted upwards throughout the remaining 28 years.

45. According to CW1, mortgage brokers would convince borrowers to take out teaser rate loans by claiming the borrower could easily refinance before the teaser rate expired and the interest increased.

46. CW1 said many of the Bank's loans from 2004 to 2008 were also "stated income" loans, which allowed pervasive fraud and falsified documents into the qualifying process, she said. In CW1's view, "Everybody knew that there was a lot of fraud," including managers at the Bank. She described the fraudulent practices among mortgage brokers as being pervasive in Miami. As a result, CW1 said, customers (mainly Hispanic) were qualifying for loans they couldn't afford. "Everybody was going over their head," she added. "I think the fault was originally with the banks because guidelines were so lenient," she said.

47. CW2 explained that loan officers were aware that the Bank was making "no-doc" loans, otherwise known as "liar loans," to unqualified applicants. The loan officers had no guidelines or incentives to challenge questionable income claims submitted by borrowers when

applying for no-doc loans. These loans, she explained, were very popular in Miami as they allowed minority borrowers who did not have W-2s to qualify for loans on homes they otherwise would not have been able to afford.

48. "We are paid on commission only," CW2 said. "We earn money only when we close the loan. If they (the borrowers) come in, fit in the loan program, want the program, and are of sound mind, who am I to stand up and blow the whistle? What do I say, 'I kind of think they are lying. But I'm not sure?'" CW2 believes higher-level bank employees must have known what was going on, but she pointed out that many of the regional managers received large commissioned salaries based on the amount of loans sold in their regions. Their incentive was to sell as many loans as possible, too.

49. CW3 said the pressure on employees from the Bank to sell HELOCs and mortgages led many loan officers to talk customers into loans they did not need and could not afford. Personal bankers and loan officers told customers about the different loan products, mortgages, and HELOCs that were available, and pressured them to apply for one. CW3 added that many borrowers were talked into taking HELOCs and other loans by loan officers more eager about make their goals than ensuring it was the right things to do for the borrowers, many of whom were minorities, who did not really understand the implications of taking out such loans.

50. CW3 said "nine times out of 10" customers at his branch applied for "no doc" loans for homes they could not afford in the City of Miami. He estimated that a solid majority of the "no doc" loans likely contained exaggerated income claims. And in most cases, the Bank looked the other way. According to CW3, the Bank was well aware of the exaggeration and fraudulent claims in "no doc" loan applications. The Bank also instructed loan officers and branch managers to meet loan goals -- not to verify financial information beyond what the Bank's "no doc" guidelines required.

51. CW4 explained that JPMorgan would approve "no doc" loans even for 95 percent financed mortgages. "I thought, 'Why are they opening themselves up to this?'" she said. "That was not a good loan." CW4 said Hispanics "absolutely" used the "no doc" loans at higher percentages than whites. "That was perfect for them," she said, explaining that many Hispanics were self-employed and regularly took advantage of loan programs that did not require income verification.

52. CW4 said that the Bank used an automated software system called Desktop Underwriting to assess whether a customer was qualified for a loan. She explained that Bank managers suggested ways to manipulate the system to obtain approval for customers who were initially denied. For example, she observed managers telling loan officers to increase the borrower's income level, assets, and/or education level to qualify the borrower. "I absolutely heard managers say that," CW4 said. "Not just once; a bunch of times." "They used the word 'tweak,'" she said of the false information submitted in the borrowers' applications. "They'd say, 'Tweak that file. Give them a college education.'"

53. CW4 said JPMorgan kept loan officers under such intense pressure to close loans that it created an environment where employees were more concerned about hitting their numbers than they were about whether the mortgages were good. This lead to placing customers in loans they couldn't afford. "The pressure for employees to produce created an environment where people were buying homes they shouldn't be buying," she said. "There was so much pressure from the Bank to do big numbers. Even for management. Their jobs were threatened if they didn't have the numbers on the board." The employees who were producing big numbers were praised and rewarded, regardless of what the employee was doing to obtain those numbers, CW4 said. "It's the guy who brings in the $20 million (who's praised), but nine times out of 10, those people are committing fraud," she said.

54. CW4 observed that many borrowers obtained interest-only mortgages because they could not qualify for the loan amount if it included paying down the principal each month. The Bank would qualify the borrower based on the interest only payment, which did not include payment of the loan principal. "The interest only loans -- that got people in there to buy houses they could not afford," CW4 said. Many of these borrowers were unable to make the monthly payments once the interest only time period expired.

55. JPMorgan (directly and through acquired lenders) does not properly underwrite these loans when made to minorities and in minority neighborhoods. JPMorgan does not adequately consider the borrowers' ability to repay these loans, especially after the teaser rate expires and/or the interest rate increases. The fact that these loans would result in delinquency, default, and foreclosure for many borrowers was, or should have been, clearly foreseeable to JPMorgan at the time the loans were made.

56. Upon information and belief, the practices and problems described by these confidential witnesses have continued into the present.

3. JPMorgan induced foreclosures by failing to offer refinancing or loan modifications to minority customers on fair terms, and otherwise limiting equal access to fair credit.

57. From and after 2009, CW1 said the Bank "went from one extreme to the other." According to CW1, the Bank's guidelines for qualification became so stringent that it seemed no one could refinance a loan, driving some customers towards foreclosure, which disproportionately impacted Hispanics. For example, she explained, some of the Hispanic borrowers who received stated-income loans now were forced by the Bank to prove up the previously stated income; in effect, the Bank would not allow them to modify their mortgages and they lost their homes.

58. CW4 added that after the real estate market crashed, the Bank stopped making no doc loans, and generally, the Bank's mortgage lending ground to a halt.

59. The CW statements show that JPMorgan induced foreclosures by failing to offer refinancing or loan modifications to minority customers on fair terms – which constitutes a particularly egregious form of redlining, given that minority borrowers sought refinancing or loan modifications with respect to bad loans that the Bank previously made to them.

60. Upon information and belief, the practices and problems described by these confidential witnesses have continued into the present.

4. JPMorgan engages in other abusive lending practices.

61. The Bank set aggressive sales goals, including mortgage loan targets. "It really made (employees) aggressive to push people to take out loans," CW3 said of his personal bankers and loan officers.

62. Upon information and belief, the practices and problems described by these confidential witnesses have continued into the present.

C. Minorities in Miami Receive Discriminatory Loan Terms from JPMorgan Regardless of Creditworthiness.

63. As discussed herein, a non-exhaustive list of the types of loans that JPMorgan issued to minorities when they otherwise qualified for less expensive and less risky loans include the following: high-cost loans (i.e., loans with an interest rate that was at least 3% above the

Treasury rate prior to 2010 and 1.5% above the prime mortgage rate thereafter),[14] subprime loans, interest-only loans, balloon payment loans, loans with prepayment penalties, negative amortization loans, no documentation loans, higher cost government loans, including FHA[15] and VA[16] loans, and HELOCs, and/or ARM loans with teaser rates (i.e., lifetime maximum rate greater than initial rate + 6%).

64. Data reported by the Bank and available through both public and private databases shows that minorities in Miami received unfavorable loan terms from JPMorgan more frequently than white borrowers regardless of creditworthiness.

65. A regression analysis of this data controlling for borrower race and objective risk characteristics such as credit history, loan-to-value ratio, and the ratio of loan amount to income demonstrates that, from 2004 to 2012, an African-American borrower was 6.351 times more likely to receive a discriminatory loan as a white borrower possessing similar underwriting and borrower characteristics.[17] The regression analysis further demonstrates that the odds that a Latino borrower would receive a discriminatory loan was 1.982 times the odds that a white borrower possessing similar underwriting and borrower characteristics would receive a discriminatory loan. These odds ratios demonstrate a pattern of statistically significant differences between African-American and white borrowers and between Latino and white borrowers.[18]

66. The regression analysis also shows that these disparities persist when comparing only borrowers with FICO scores above 660. An African-American borrower with a FICO score above 660 was 5.500 times more likely to receive a discriminatory loan as a white borrower with similar underwriting and borrower characteristics. A Latino borrower with a FICO score above

[14] This definition applies to first lien loans.

[15] FHA loans are insured by the Federal Housing Administration and require borrowers to pay for mortgage insurance and may entail other costs. People with credit scores under 500 generally are ineligible for FHA loans.

[16] VA loans are guaranteed by the U.S. Department of Veterans Affairs, available to veterans or surviving spouses who do not remarry, and generally do not require a down payment on the property.

[17] As alleged throughout the complaint, all references to the date range 2004-2012 are intended to include the time period up to and including December 31, 2012.

[18] Statistical significance is a measure of probability that an observed outcome would not have occurred by chance. As used in this Complaint, an outcome is statistically significant if the probability that it could have occurred by chance is less than 10%.

660 was 2.209 times more likely to receive a discriminatory loan as a white borrower with similar underwriting and borrower characteristics. These odds ratios demonstrate a pattern of statistically significant differences between African-American and white borrowers and between Latino and white borrowers.

67. A similar regression analysis taking into account the racial makeup of the borrower's neighborhood rather than the individual borrower's race shows that borrowers in heavily minority neighborhoods in Miami were more likely to receive discriminatory loans than borrowers in heavily white neighborhoods. For example, a borrower in a heavily minority census tract (census tract consisting of at least 90% African-American or Latino households) was 1.923 times more likely as a borrower with similar characteristics in a non-minority neighborhood (census tract with at least 50% white households) to receive a discriminatory loan. These odds ratios demonstrate a pattern of statistically significant differences between African-American and white borrowers and between Latino and white borrowers.

68. Additionally, data reported by the Bank and available through public databases shows that in 2004-2012, 25.6% of loans made by JPMorgan to African-American and Latino customers in Miami were high cost, but only 9.30% of loans made to white customers in Miami were high cost. This data demonstrates a pattern of statistically significant differences in the product placement for high cost loans between minority and white borrowers.

69. Thus, the disparities in Miami are not the result of, or otherwise explained by, legitimate non-racial underwriting criteria.

70. The fact that discriminatory loans involving all of JPMorgan's loan products are more heavily concentrated in minority neighborhoods in Miami is consistent with the practice of reverse redlining and, upon information and belief, has contributed significantly to the disproportionately high rates of foreclosure in minority communities in Miami.

D. Miami's Data Analysis Is Corroborated by Additional Studies/Reports.

71. According to *Discretionary Pricing, Mortgage Discrimination, and the Fair Housing Act*, 45 Harv. C.R.-C.L. L. Rev. 375, 398 (2010), several studies dating back to 2000 have established that minority borrowers were charged higher interest rates/fees than similar creditworthy white borrowers.

72. Likewise, according to *A Racial Financial Crisis*, 83 Temple L. Rev. 941, 947, 949 (2011), one study concluded that "even after controlling for underwriting variables, African-

American borrowers were 6.1% to 34.3% more likely than whites to receive a higher rate subprime mortgage during the subprime boom." And another study found that significant loan pricing disparity exists among low risk borrowers—African-American borrowers were 65% more likely to receive a subprime home purchase loan than similar creditworthy white borrowers, and 124% more likely to receive a subprime refinance loan.

73. Similarly, the Center for Responsible Lending's November 2011 report, *Lost Ground, 2011: Disparities in Mortgage Lending and Foreclosures*, stated that "racial and ethnic differences in foreclosure rates persist even after accounting for differences in borrower incomes." Further, the Center stated it is "particularly troublesome" that minorities received riskier loans "even within [similar] credit ranges." For example, among borrowers having FICO scores above 660, the incidence of higher rate loans among various groups was as follows: whites–6.2%; African-American–21.4%; and Latino–19.3%.[19]

74. The Miami high-cost analysis is similar to national trends as confirmed by an analysis of the HMDA data for the period 2012-2014. According to a report prepared by the Center for Responsible Lending, "[t]he percentage of African-Americans with high cost loans rose from 5.3% in 2012 to 14.2% in 2013 to 25.5% in 2014. Similarly, the rate rose from 5.9% in 2012 to 16.8% in 2013 to 28.3% in 2014 for Latino borrowers." Center for Responsible Lending Issue Brief, *Mortgage Lending Continues Under Dodd-Frank*, at 5 (Sept. 22, 2015), *available at* http://www.responsiblelending.org/mortgage-lending/policy-legislation/2014hmda_data_issue brief_f.pdf.

75. In general, as recently observed by the Federal Reserve in December 2012, both African-American and Hispanic borrowers were far more likely (in fact, nearly twice more likely) to obtain higher-priced loans than were white borrowers. These relationships hold both for home-purchase and refinance lending and for non-conventional loans. These differences are reduced, but not eliminated, after controlling for lender and borrower characteristics. "Over the years, analyses of HMDA data have consistently found substantial differences in the incidence of higher-priced

[19] Center for Responsible Lending, *Lost Ground, 2011: Disparities in Mortgage Lending and Foreclosures*, at 5, 21 (Nov. 2011), *available at* http://www.responsiblelending.org/mortgage-lending/research-analysis/Lost-Ground-2011.pdf.

lending across racial and ethnic lines, differences that cannot be fully explained by factors included in the HMDA data."[20]

76. African-Americans and Hispanics were much more likely to receive discriminatory loans and loans with features that are associated with higher foreclosures, specifically prepayment penalties and hybrid or option ARMs. These disparities were evident even comparing borrowers within the same credit score ranges. In fact, the disparities were especially pronounced for borrowers with higher credit scores. For example, among borrowers with a FICO score of over 660 (indicating good credit), African-Americans and Latinos received a high interest rate loan more than three times as often as white borrowers.[21]

77. In addition to receiving a higher proportion of higher-rate loans, African-Americans and Latinos also were much more likely to receive loans with other risky features, such as hybrid and option ARMs and prepayment penalties. Disparities in the incidence of these features are evident across all segments of the credit spectrum.

E. JPMorgan's Discriminatory Lending Practices Cause Foreclosures.

1. Data shows that JPMorgan's foreclosures are disproportionately located in minority neighborhoods in Miami.

78. Far from being a responsible provider of much-needed credit in minority communities, JPMorgan's discriminatory lending practices are a leading cause of stagnation and decline in African-American and Latino neighborhoods where its foreclosures are concentrated. Specifically, since at least 2000, its foreclosures have been concentrated in neighborhoods with African-American or Latino populations exceeding 75%.

79. Although 57.0% of JPMorgan's loan originations in Miami from 2004 to 2012 were in census tracts that are at least 75% African-American or Latino, 68.1% of loan originations that had entered foreclosure by June 2013 were in those census tracts. Similarly, while 84.5% of JPMorgan's loan originations in Miami from 2004 to 2012 occurred in census tracts that are at least 50% African-American or Latino, 96.2% of JPMorgan's loan originations that had entered foreclosure by June 2013 were in those census tracts. Moreover, while 15.5% of JPMorgan's loan

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[20] Federal Reserve Bulletin, *The Mortgage Market in 2011: Highlights from the Data Reported under the Home Mortgage Disclosure Act* (Dec. 2012), *available at* http://www.federalreserve.gov/pubs/bulletin/2012/PDF/2011_HMDA.pdf.

[21] Center for Responsible Lending, *Lost Ground, 2011*, *supra* n. 19.

originations in Miami from 2004 to 2012 occurred in census tracts that were less than 50% African-American or Latino, only 3.8%of JPMorgan's loan originations that has entered foreclosure by June 2013 were in those census tracts. This data demonstrates a pattern of statistically significant differences between African-American and white borrowers and between Latino and white borrowers. Upon information and belief, a similar pattern of foreclosures will take place with more recent unfavorable loans.

80. In addition to the disproportionate distribution of JPMorgan foreclosures in African-American and Latino neighborhoods, disparate rates of foreclosure based on race further demonstrate JPMorgan's failure to follow responsible underwriting practices in minority neighborhoods. While 33.1% of JPMorgan's loans in predominantly (greater than 90%) African-American or Latino neighborhoods result in foreclosure, the same is true for only 6.5%of its loans in non-minority (at least 50% white) neighborhoods. In other words, a JPMorgan loan in a predominantly African-American or Latino neighborhood is 7.142 times more likely to result in foreclosure as a JPMorgan loan in a non-minority neighborhood. These odds ratios demonstrate a pattern of statistically significant differences between African-American and white borrowers and between Latino and white borrowers.

81. Thus, JPMorgan's discriminatory lending practices have caused and continue to cause foreclosures in Miami.

2. Data shows that JPMorgan's loans to minorities result in especially quick foreclosures in Miami.

82. A comparison of the time from origination to foreclosure of JPMorgan's loans originated in Miami from 2004 to 2012 shows a marked disparity with respect to the speed with which loans to Latinos and whites move into foreclosure. The average time to foreclosure for Hispanic borrowers is 2.763 years. By comparison, the average time to foreclosure for white borrowers is 3.049 years. These statistically significant disparities demonstrate that JPMorgan aggressively moved minority borrowers into foreclosure as compared with how the Bank handled foreclosures for white borrowers.

83. This disparity in time to foreclosure is further evidence that JPMorgan is engaged in discriminatory lending practices. The disparity in time to foreclosure demonstrates that JPMorgan is engaged in irresponsible underwriting in African-American and Latino communities that does not serve the best interests of borrowers. If JPMorgan were applying the same

underwriting practices in African-American and Latino neighborhoods and white neighborhoods in Miami, there would not be a significant difference in time to foreclosure. Were JPMorgan underwriting borrowers in both communities with equal care and attention to proper underwriting practices, borrowers in African-American and Latino communities would not find themselves in financial straits significantly sooner during the lives of their loans than borrowers in white communities. The faster time to foreclosure in African-American and Latino neighborhoods is consistent with underwriting practices in minority communities that are less concerned with determining a borrower's ability to pay and qualifications for the loan than they are in maximizing short-term profit.

84. The HUD/Treasury Report confirms that time to foreclosure is an important indicator of discriminatory practices: "[t]he speed with which the subprime loans in these communities have gone to foreclosure suggests that some lenders may be making mortgage loans to borrowers who did not have the ability to repay those loans at the time of origination."[22]

3. Data shows that the discriminatory lending practices cause the foreclosures in Miami.

85. JPMorgan's discriminatory lending practices cause foreclosures and vacancies in minority communities in Miami.

86. Issuing more expensive and riskier loans to minority borrowers than the loans for which they qualify and are issued to similarly situated white borrowers can cause foreclosures because the borrowers are required to make higher loan payments. The difference between what a borrower who receives a more expensive loan must pay and the lower amount for which the borrower qualified can cause the borrower to be unable to make payments on the mortgage. In such instances, the borrower would have continued to make payments on the mortgage and remained in possession of the premises had JPMorgan not issued a more expensive loan in violation of the Fair Housing Act. The Bank's discriminatory lending conduct therefore causes foreclosures and vacancies.

87. Giving a loan to an applicant who does not qualify for the loan, especially a refinance or home equity loan, can also cause foreclosures and vacancies. Some homeowners live

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[22] U.S. Dep't of Housing & Urban Development and U.S. Dep't of the Treasury, *Curbing Predatory Home Mortgage Lending*, at 25 (2000) ("HUD/Treasury Report"), *available at* http://www.huduser.org/Publications/pdf/treasrpt.pdf.

in properties that they own subject to no mortgage. Other homeowners live in properties with modest mortgages that they can comfortably afford to pay. Where a lender, such as JPMorgan, solicits such a homeowner to take out a home equity loan on their property, or alternatively, to refinance their existing loan into a larger loan without properly underwriting them to assure that they can make the monthly payments for the new, larger loan, the result is likely to be that the borrower will be unable to make payments on the mortgage. This is particularly true where the borrower is refinanced from a fixed-rate loan into an adjustable rate loan that the lender knows the borrower cannot afford should interest rates rise. In some instances the lender may refinance the borrower into a new loan that the lender knows the borrower cannot sustain given the borrower's present debt obligations and financial resources. In such circumstances, the likely result of such practices is to cause homeowners who are otherwise occupying properties without a mortgage, or comfortably making payments on a modest existing mortgage, to be unable to make payment on a new, unaffordable loan. This, in turn, causes foreclosures and vacancies. If these unaffordable refinance and home equity loans had not been made, the subject properties would not have become vacant.

88. A regression analysis of loans issued by JPMorgan in Miami from 2004 to 2012 controlling for objective risk characteristics such as credit history, loan to value ratio, and the ratio of loan amount to income demonstrates that a discriminatory loan is 2.241times more likely to result in foreclosure than a non-discriminatory loan.

89. The regression analysis also demonstrates that a discriminatory loan made to a Latino borrower was 3.360 times more likely as a non-discriminatory loan made to a white borrower with similar risk characteristics to result in foreclosure. These odds ratios demonstrate a pattern of statistically significant differences between Latino and white borrowers.

90. A seminal report on foreclosure activity by Mark Duda and William Apgar documents the negative impact that rising foreclosures have on low-income and low-wealth minority communities, using Chicago as a case study. Mr. Apgar is a Senior Scholar at the Joint Center for Housing Studies of Harvard University, and a Lecturer on Public Policy at Harvard's John F. Kennedy School of Government. He previously served as the Assistant Secretary for Housing/Federal Housing Commissioner at the U.S. Department of Housing and Urban Development, and also Chaired the Federal Housing Finance Board. Mr. Apgar holds a Ph.D. in Economics from Harvard University. Mr. Duda is a Research Fellow at the Joint Center for

Housing Studies. The Apgar-Duda report has continually been cited by subsequent governmental, public sector, and private sector reports due to its clarity and thoroughness with respect to the negative impact foreclosures have on lower-income and minority neighborhoods.[23]

91. This significant report highlights the foreseeability of foreclosures arising from discriminatory lending practices and their attendant harm, demonstrating that such foreclosures impose significant and predictable costs on borrowers, municipal governments, and neighboring homeowners.

92. Another report, by the Center for Responsible Lending, uses a national dataset to show that the foreclosure rate for low- and moderate-income African-Americans is approximately 1.8 times higher than it is for low- and moderate-income non-Hispanic whites. The gap is smaller for Latinos, especially among low-income households, but even among low-income Latinos the foreclosure rate is 1.2 times that of low-income whites. Racial and ethnic disparities in foreclosure rates cannot be explained by income, since disparities persist even among higher-income groups. For example: approximately 10 percent of higher-income African-American borrowers and 15 percent of higher-income Latino borrowers have lost their home to foreclosure, compared with 4.6 percent of higher income non-Hispanic white borrowers. Overall, low- and moderate-income African-Americans and middle- and higher-income Latinos have experienced the highest foreclosure rates.[24]

93. Nearly 20 percent of loans in high-minority neighborhoods have been foreclosed upon or are seriously delinquent, with significant implications for the long-term economic viability of these communities.[25]

V. INJURY TO MIAMI CAUSED BY JPMORGAN'S DISCRIMINATORY LOAN PRACTICES.

94. Miami has suffered both non-economic and economic injuries as a direct result of JPMorgan's longstanding, unbroken policy and practice of both intentionally steering minority borrowers in Miami into mortgage loans that have higher costs and risk features than more

[23] *See* W. Apgar, M. Duda & R. Gorey, *The Municipal Costs of Foreclosures: A Chicago Case Study* (2005), *available at* http://neighborworks.issuelab.org/resource/municipal_cost_of_foreclosure_a_chicago_case_study.

[24] Center for Responsible Lending, *Lost Ground, 2011*, *supra* n.19.

[25] *Id.* at 6.

favorable and less expensive loans issued to similarly situated white borrowers, and engaging in facially neutral business policies and practices that created an "artificial, arbitrary, and unnecessary" barrier to fair housing opportunities for minority home purchasers and owners. These practices resulted in the disproportionately high rate of foreclosure on JPMorgan loans to African-Americans and Latinos in minority neighborhoods in Miami. Miami seeks redress for these injuries. The City does not seek redress in this action for injuries resulting from foreclosures on mortgages originated by lenders other than JPMorgan.

95. JPMorgan continues to engage in the discriminatory pattern or practice described herein with similar and continuing deleterious consequences to the City.

96. Through the use of expert evidence and analytic tools such as Hedonic regression, Miami is capable of establishing that the Bank's discriminatory lending practices were the cause of the resulting injuries alleged herein in a manner that excludes other potential causes.

A. Non-Economic Injuries

97. JPMorgan's conduct has adversely impacted the ability of minority residents to remain in their chosen neighborhood of the City and impaired the City's goals to assure that racial factors do not adversely affect the ability of any person to choose where to live in the City or to detract from the social and professional benefits of living in an integrated society.

98. The Bank's discriminatory lending practices have adversely affected the City's longstanding and active interest in promoting fair housing and securing the benefits of an integrated community, which is the purpose and mission of the Miami's Department of Community & Economic Development. The Department, which has responsibility for operating the City's fair housing program, is designed to "affirmatively further fair housing objectives of Title VI of the Civil Rights Act of 1964, Title VIII of the Civil Rights Act of 1968, as amended, and other relevant federal, state, and local housing laws." In discharging that responsibility, the Department "actively works to reduce illegal housing discrimination. The City promotes equal housing opportunity through education and training, monitoring and investigating fair housing complaints utilizing techniques to support fair housing litigation, and conducts research and studies

to identify and address fair housing impediments."[26] The Bank's discriminatory lending practices directly interfere with the City's ability to achieve these important objectives.

B. Economic Injuries

99. The City has suffered economic injury based upon reduced property tax revenues resulting from (a) the decreased value of the vacant properties themselves, and (b) the decreased value of properties surrounding the vacant properties. In addition, the City has suffered economic injury resulting from the cost of municipal services that it provided and still must provide to remedy blight and unsafe and dangerous conditions which exist at properties that were foreclosed as a result of JPMorgan's illegal lending practices.

1. Miami has been injured by a reduction in property tax revenues from foreclosures caused by JPMorgan's discriminatory lending practices.

100. When a home falls into foreclosure, it affects the property value of the foreclosed home as well as the values of other homes in the neighborhood. These decreased property values in turn reduce property tax revenues to the City.

101. As property values drop, Miami communities could lose many millions in property tax revenues from the decreased value of the foreclosed homes themselves and those in the surrounding neighborhoods.

102. Homes in foreclosure tend to experience a substantial decline in value relative to those that are not in foreclosure (e.g., 28%).[27] The relative decline in property values can be measured by a number of objective criteria, including the well-established Case-Shiller Home Price Index for the Miami Metropolitan Statistical Area.

103. A portion of this lost home value is attributable to homes foreclosed as a result of JPMorgan's discriminatory loan practices.

104. The decreased property values of foreclosed homes in turn reduce property tax revenues to the City and constitute damages suffered by Miami.

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[26] City of Miami, Community & Economic Development Department, *Fair Housing*, http://www.miamigov.com/communitydevelopment/pages/housing/FairHousing.asp.

[27] Campbell, John Y., Stefano Giglio & Parag Pathak, National Bureau of Economic Research, NBER Working Paper Series, *Forced Sales and House Prices* (Apr. 2009), *available at* http://www.nber.org/papers/w14866.pdf?new_window=1.

105. JPMorgan foreclosure properties and the problems associated with them likewise cause especially significant declines in surrounding property values because the neighborhoods become less desirable. This in turn reduces the property tax revenues collected by Miami.

106. Property tax losses suffered by Miami as a result of vacancies resulting from JPMorgan's foreclosures are fully capable of empirical quantification.

107. Routinely maintained property tax and other data allow for the precise calculation of the property tax revenues lost by the City as a direct result of particular JPMorgan foreclosures. Using a well-established statistical regression technique that focuses on effects on neighboring properties, the City can isolate the lost property value attributable to JPMorgan foreclosures and vacancies from losses attributable to other causes, such as neighborhood conditions. This technique, known as Hedonic regression, when applied to housing markets, isolates the factors that contribute to the value of a property by studying thousands of housing transactions. Those factors include the size of a home, the number of bedrooms and bathrooms, whether the neighborhood is safe, whether neighboring properties are well-maintained, and more. Hedonic analysis determines the contribution of each of these house and neighborhood characteristics to the value of a home.

108. The number of foreclosures in a neighborhood is one of the neighborhood traits that Hedonic analysis can examine. Hedonic analysis allows for the calculation of the impact on a property's value of the first foreclosure in close proximity (e.g., ⅛ or ¼ of a mile), the average impact of subsequent foreclosures, and the impact of the last foreclosure.

109. Foreclosures attributable to JPMorgan in minority neighborhoods in Miami can be analyzed through Hedonic regression to calculate the resulting loss in the property values of nearby homes. This loss can be distinguished from any loss attributable to non-JPMorgan foreclosures or other causes. The loss in property value in minority neighborhoods in Miami attributable to JPMorgan's unlawful acts and consequent foreclosures can be used to calculate the City's corresponding loss in property tax revenues.

110. Various studies establish that Hedonic regression can be used for this purpose. A study published by the Fannie Mae Foundation, using Chicago as an example, determined that

each foreclosure is responsible for an average decline of approximately 1.1% in the value of each single-family home within an eighth of a mile.[28]

111. Other studies have focused on the impact of abandoned homes on surrounding property values. A study in Philadelphia, for example, found that each home within 150 feet of an abandoned home declined in value by an average of $7,627; homes within 150 to 299 feet declined in value by $6,810; and homes within 300 to 449 feet declined in value by $3,542.[29]

112. These studies highlight the foreseeability of tax related harm to the City as the result of foreclosures arising from discriminatory loans.

113. And most recently, a Los Angeles study reported, "[i]t is conservatively estimated that each foreclosed property will cause the value of neighboring homes within an eighth of a mile to drop 0.9%." Thus, "[i]n Miami, impacted homeowners could experience property devaluation of $53 billion."[30] This decreased property value of neighboring homes in turn reduces property tax revenues to the City.

114. Application of such Hedonic regression methodology to data regularly maintained by Miami can be used to quantify precisely the property tax injury to the City caused by JPMorgan's discriminatory lending practices and resulting foreclosures in minority neighborhoods.

2. Miami is injured because it provided and still must provide costly municipal services for foreclosure properties in minority neighborhoods as a direct result of JPMorgan's discriminatory lending practices.

115. JPMorgan foreclosure properties cause direct costs to the City because the City is required to provide increased municipal services at these properties. Even prior to completion of

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[28] *See* Dan Immergluck & Geoff Smith, *The External Costs of Foreclosure: The Impact of Single-Family Mortgage Foreclosures on Property Values*, 17 Housing Policy Debate 57, 69 (2006).

[29] *See* Anne B. Shlay & Gordon Whitman, *Research for Democracy: Linking Community Organizing and Research to Leverage Blight Policy*, at 21 (2004).

[30] The Alliance of Californians for Community Empowerment and the California Reinvestment Coalition, *The Wall Street Wrecking Ball: What Foreclosures are Costing Los Angeles Neighborhoods*, at 3 (2011) ("Cost to Los Angeles Report").

the foreclosure process, data shows that 20% of homes are vacated.[31] These services would not have been necessary if the properties had not been foreclosed upon. Moreover, these foreclosures resulting from JPMorgan's unlawful conduct have contributed to the necessity for the City to divert essential municipal services that would have been utilized for other purposes to promote the health, welfare, and safety of its residents.

116. JPMorgan's discriminatory lending and the subsequent foreclosures have put a strain on the resources of the City's Police Department and negatively impacted the ability to police a wide assortment of communities within the City of Miami over the last several years.

117. For example, abandoned foreclosed properties required the Police Department to dedicate countless man-hours to respond administratively to issues which required it to deploy, in numbers and frequency otherwise unusual, uniformed officers and plain-clothed detectives, and to seek the assistance of Code Enforcement Officers and other resources from other Departments within the City of Miami. This response was caused in part by the increased level of crime plaguing the neighborhoods as a result of foreclosed and abandoned homes. The crimes generating these additional resource requirements include burglaries to the properties, and the surrounding homes, drug sales, vagrancy, home squatters, and an increased level of prostitution and lewd conduct.

118. Additionally, abandoned homes were magnets for individuals who repeatedly burglarized unoccupied and abandoned homes to rip copper tubing and wiring from the interior of the homes. This often left water spewing out of the homes, causing thousands of dollars' worth of damage to the homes. This occurrence had a negative impact on the property value of not just that home, but the remaining residences of the neighborhoods, all the while creating an increased fear of crime and victimization among residents. Though many of these problem areas were identified by beat officers on regular patrol, many of the abandoned properties prompted individual homeowners, homeowners' associations, and neighborhood watch groups to contact the Miami Police Department. These complaints came in the form of emails, phone calls, and personal complaints that were directly received by the Police Department, as well as through other City Departments, such as Code Enforcement, Public Works, the City Manager's office, as well as City Council members' and the Mayor's office.

[31] *See* RealtyTrac, *Owner-Vacated Properties Represent 20 Percent of All Foreclosures Nationwide* (June 2013), *available at* http://www.realtytrac.com/content/foreclosure-market-report/owner-vacated-foreclosure-update-7771.

119. These complaints required officers to consistently check on these properties through special watches, directed patrol, and Problem Oriented Policing ("POP") projects. They sometimes resulted in arrests, but regardless of the outcome, they required a disproportionate amount of resources to manage the problem.

120. Likewise, the Miami Fire Department has sent, and will continue to send personnel and resources to JPMorgan foreclosure properties to respond to a variety of fire-related problems that arise at these properties because of their foreclosure status.

121. The Miami Building Department and Code Enforcement/Code Compliance Departments have devoted, and will continue to devote personnel time and out-of-pocket funds to perform a number of tasks that arise at these properties because of their foreclosure status. These include, but are not limited to the following: (a) inspect and issue permitting violations in contravention of Florida statutes 553 and the Florida Building Code; (b) inspect and issue violations of the Miami City Code and Florida statutes 162; (c) condemn and demolish vacant structures deemed an imminent hazard to public safety.

122. The City frequently hires independent contractors to perform certain services, including, but not limited to, (i) removing excess vegetation at vacant properties, (ii) hauling away trash and debris at vacant properties, (iii) boarding vacant property from casual entry, (iv) putting up fencing to secure vacant properties, (v) painting and removing graffiti at vacant properties. Occasionally, some of these services are performed by the City's General Services Administration Department.

123. The Miami City Attorney's Office has devoted, and will continue to devote personnel time and out-of-pocket resources perform a number of tasks that arise at these properties because of their foreclosure status. These include, but are not limited to the following: (a) prosecuting code enforcement cases; (b) preserving the City's lien rights at judicial foreclosure proceedings; and (c) pursuing court ordered injunctions involving a myriad of potential problems at foreclosure properties.

124. The City is required to administer and fund the Unsafe Structures Board, which was formerly under the jurisdiction of Miami-Dade County.

125. As stated by the *Cost to Los Angeles* Report, "[l]ocal government agencies have to spend money and staff time on blighted foreclosed properties, providing maintenance, inspections, trash removal, increased public safety calls, and other code enforcement services . . . Responding

to these needs is a gargantuan task that involves multiple agencies and multiple levels of local government."[32]

126. Moreover, as discussed above, the Apgar-Duda report underscores the foreseeability of municipal costs as the result of foreclosures arising from discriminatory loans.

VI. SAMPLE PROPERTIES IN THE CITY OF MIAMI

A. Foreclosures

127. Plaintiff has preliminarily identified seven hundred and eighty-three (783) discriminatory loans issued to minority borrowers by JPMorgan in Miami between 2004 and 2012 that resulted in foreclosure.[33] These loans are deemed to violate the FHA and are discriminatory because they were issued to minority borrowers and were more expensive than the loans issued to similarly situated white borrowers. These loans issued by JPMorgan are continuing to enter the foreclosure process. The City has already incurred, or will incur in the future, damages corresponding to each of these properties. A sample of property addresses corresponding to these foreclosures is set forth below:

3770 Oak Ave., 33133[34]

4010 NW 11th St., 33126[35]

[32] *Cost to Los Angeles Report, supra* n.30.

[33] Plaintiff anticipates that it will be able to identify more foreclosures resulting from the issuance of discriminatory loans during this time period with the benefit of discovery. This conclusion derives from the fact that because of certain reporting limitations, the publicly available mortgage loan databases utilized by Plaintiff are not as comprehensive as the mortgage loan databases maintained by and in the possession of an issuing bank. For these reasons, Plaintiff will also be able to provide additional specific property addresses corresponding to foreclosures with the benefit of discovery.

[34] This borrower is Hispanic and received a conventional loan. Plaintiff has the name for this borrower but has omitted it for privacy reasons. In the event this Court requires inclusion of the borrower names Plaintiff will file a complaint under seal with this information.

[35] This borrower is Hispanic and received a conventional loan. Plaintiff has the name for this borrower but has omitted it for privacy reasons. In the event this Court requires inclusion of the borrower names Plaintiff will file a complaint under seal with this information.

801 NW 47th Ave. Unit 202W, 33126[36]

4707 NW 7th St., Unit 104-8, 33126[37]

1878 NW 15th Ave., Unit 4[38]

B. Discriminatory Loans Issued Subsequent to June 13, 2012.

128. JPMorgan has continued to issue discriminatory loans to minority borrowers in Miami subsequent to June 13, 2012. These loans are deemed to violate the FHA and are discriminatory because they were issued to minority borrowers and were more expensive than the loans issued to similarly situated white borrowers during the limitations period. Upon information and belief, as well as historic experience, a significant number of the properties corresponding to issuance of discriminatory loans subsequent to December 13, 2011 will result in foreclosures or other adverse events that will cost the City a loss of tax revenues and significant remediation costs. A sample of property addresses corresponding to the issuance of these loans to minority borrowers all of which closed (i.e. "originated") during the limitations period is set forth below:

4719 NW 7th St., Unit 301-11, 33126[39]

3180 SW 22nd Ter. Unit 707, 33145[40]

480 NE 30th St., Unit 1003, 33137[41]

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[36] This borrower is Hispanic and received a conventional loan. Plaintiff has the name for this borrower but has omitted it for privacy reasons. In the event this Court requires inclusion of the borrower names Plaintiff will file a complaint under seal with this information.

[37] This borrower is Hispanic and received a conventional loan. Plaintiff has the name for this borrower but has omitted it for privacy reasons. In the event this Court requires inclusion of the borrower names Plaintiff will file a complaint under seal with this information.

[38] This borrower is Hispanic and received a conventional loan. Plaintiff has the name for this borrower but has omitted it for privacy reasons. In the event this Court requires inclusion of the borrower names Plaintiff will file a complaint under seal with this information.

[39] This borrower is Hispanic and received a conventional loan with a loan origination date of March 3, 2014. Plaintiff has the name for this borrower but has omitted it for privacy reasons. In the event this Court requires inclusion of the borrower names Plaintiff will file a complaint under seal with this information.

[40] This borrower is Hispanic and received a conventional loan with a loan origination date of January 17, 2014. Plaintiff has the name for this borrower but has omitted it for privacy reasons. In the event this Court requires inclusion of the borrower names Plaintiff will file a complaint under seal with this information.

[41] This borrower is Hispanic and received a conventional loan with a loan origination date of December 11, 2013. Plaintiff has the name for this borrower but has omitted it for

1249 NW 57th St., 33142[42]

1871 NW 21st St., 33142[43]

1291 NW 57th St., 33142[44]

129. An examination of publicly available information on loans issued during the limitations period strongly supports the conclusion that a greater number of more expensive and/or riskier loans were issued to minority borrowers than to non-minority borrowers during the two years preceding the filing this complaint. The data available to the City prior to discovery demonstrate significant differences in the treatment of those categories. However, the small size of the available sample does not lend itself adequately to statistical analysis in isolation. Upon information and belief, the disparity exemplified by the examination of the earlier loans persists. Still, the City maintains that, because it has pleaded a continuing violation, the continuance of the same lending practices that result in a discriminatory disparate impact melds the timely instances of that practice into the pre-limitations period instances of that practice to constitute a single claim, requiring but a single evaluation of the overall disparate impact.

VII. CLAIM FOR RELIEF

(Violation of the Federal Fair Housing Act, 42 U.S.C. §§ 3601, *et seq.*)

130. Plaintiff repeats and incorporates by reference all allegations contained in the preceding paragraphs as if fully set forth herein.

131. JPMorgan's acts, policies, and practices as described constitute intentional discrimination on the basis of race. JPMorgan has intentionally targeted residents of predominantly

privacy reasons. In the event this Court requires inclusion of the borrower names Plaintiff will file a complaint under seal with this information.

42 This borrower is African American and received a conventional loan with a loan origination date of August 5, 2013. Plaintiff has the name for this borrower but has omitted it for privacy reasons. In the event this Court requires inclusion of the borrower names Plaintiff will file a complaint under seal with this information.

43 This borrower is Hispanic and received a conventional loan with a loan origination date of January 30, 2013. Plaintiff has the name for this borrower but has omitted it for privacy reasons. In the event this Court requires inclusion of the borrower names Plaintiff will file a complaint under seal with this information.

44 This borrower is African American and received a conventional loan with a loan origination date of July 23, 2012. Plaintiff has the name for this borrower but has omitted it for privacy reasons. In the event this Court requires inclusion of the borrower names Plaintiff will file a complaint under seal with this information.

African-American and Latino neighborhoods in Miami for different treatment than residents of predominantly white neighborhoods in Miami with respect to mortgage lending. JPMorgan has intentionally targeted residents of these neighborhoods for high-cost loans without regard to their credit qualifications and without regard to whether they qualify for more advantageous loans, including prime loans. JPMorgan has intentionally targeted residents of these neighborhoods for increased interest rates, points, and fees, and for other disadvantageous loan terms including, but not limited to, adjustable rates, prepayment penalties, and balloon payments. JPMorgan has intentionally targeted residents of these neighborhoods for unfair and deceptive lending practices in connection with marketing and underwriting mortgage loans.

132. JPMorgan's acts, policies, and practices have had an adverse and disproportionate impact on African-Americans and Latinos and residents of predominantly African-American and Latino neighborhoods in Miami as compared to similarly situated whites and residents of predominantly white neighborhoods in Miami. This adverse and disproportionate impact is the direct result of numerous factors, including, but not limited to: knowing about lending practices that either risked or resulted in failing to adequately monitor the Bank's practices regarding mortgage originations, purchasing, marketing, sales, and risk management functions; failing to underwrite loans based on traditional underwriting criteria such as debt-to-income ratio, loan-to-value ratio, FICO score, and work history; placing borrowers in more expensive, riskier loans they qualified for; failing to properly underwrite refinance and hybrid adjustable-rate loans; allowing mortgage brokers to charge "yield spread premiums" for qualifying a borrower for an interest rate that is higher than the rate the borrower qualifies for and can actually afford; marketing certain more expensive or riskier loan products to residents in predominantly minority neighborhoods; requiring substantial prepayment penalties that prevent borrowers whose credit has improved from refinancing their discriminatory loan to a prime loan; charging excessive points and fees that are not associated with any increased benefits for the borrower; creating a compensation scheme incentivizing employees to issue discriminatory loans; failing to .monitor and ensure compliance with federal fair lending laws. These practices, which are united because they represent manifestations of the same continuous and unbroken practice of engaging in facially neutral business policies and practices that created an "artificial, arbitrary, and unnecessary" barrier to fair housing opportunities for minority home purchasers and owners, have caused African-Americans and Latinos and residents of predominantly African-American and Latino neighborhoods in Miami

to receive mortgage loans from JPMorgan that have materially less favorable terms than mortgage loans given by JPMorgan to similarly situated whites and residents of predominantly white neighborhoods in Miami, and that are materially more likely to result in foreclosure.

133. JPMorgan's residential lending-related acts, policies, and practices violate the Fair Housing Act as:

(a) Discrimination on the basis of race and national origin in making available, or in the terms and conditions of, residential real estate-related transactions, in violation of 42 U.S.C. § 3605(a); and

(b) Discrimination on the basis of race and national origin in the terms, conditions, or privileges of sale of a dwelling, in violation of 42 U.S.C. § 3604(b).

134. JPMorgan's policies or practices are not justified by business necessity or legitimate business interests.

135. JPMorgan's policies and practices are continuing.

136. The City is an aggrieved person as defined by 42 U.S.C. § 3602(i) and has suffered damages as a result of JPMorgan's conduct.

137. The City's damages include lost tax revenues and the need to provide increased municipal services. The loss of tax revenues at specific foreclosure sites and at closely neighboring properties in predominantly minority neighborhoods of the City was a foreseeable consequence that was fairly traceable to JPMorgan's discriminatory lending. Likewise, the need to provide increased municipal services at blighted foreclosure sites in predominantly minority neighborhoods of the City was a foreseeable consequence that was fairly traceable to JPMorgan's discriminatory lending.

138. JPMorgan's policies and practices, as described herein, had the effect and/or purpose of discriminating on the basis of race or national origin.

DEMAND FOR JURY TRIAL

Pursuant to Fed. R. Civ. P. 38(b), the City demands a trial by jury on all issues so triable.

PRAYER FOR RELIEF

WHEREFORE, the City respectfully prays that the Court grant it the following relief:

A. Enter a declaratory judgment that the foregoing acts, policies, and practices of JPMorgan violate 42 U.S.C. §§ 3604 and 3605;

B. Enter a permanent injunction enjoining JPMorgan and its directors, officers, agents, and employees from continuing the discriminatory conduct described herein, and directing JPMorgan and its directors, officers, agents, and employees to take all affirmative steps necessary to remedy the effects of the discriminatory conduct described herein, and to prevent additional instances of such conduct or similar conduct from occurring in the future, pursuant to 42 U.S.C. § 3613(c)(1);

C. Award compensatory damages to the City in an amount to be determined by the jury that would fully compensate the City of Miami for its injuries caused by the conduct of JPMorgan alleged herein, pursuant to 42 U.S.C. § 3613(c)(1);

D. Award punitive damages to the City in an amount to be determined by the jury that would punish JPMorgan for the willful, wanton, and reckless conduct alleged herein, and that would effectively deter similar conduct in the future, pursuant to 42 U.S.C. § 3613(c)(1);

E. Award the City its reasonable attorneys' fees and costs, pursuant to 42 U.S.C. § 3613(c)(2);

F. Require payment of pre-judgment interest on monetary damages; and

G. Order such other relief as this Court deems just and equitable.

Date: April 29, 2016

Respectfully submitted,

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Attorneys for Plaintiff

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was filed on April 29, 2016 with the Clerk by using the CM/ECF system, which will send notification of such filing to all attorneys of record.

s/ Lance A. Harke